

## Russian activity: 2019 provides a low base for 2020

Russian consumers ended 2019 on a downbeat note. 2020 will be a test of the new government's ability to boost confidence amid limited room for further accumulation of consumer debt. Recent events confirm our call that budget tools are likely to be used



Crowds at the Moremoll shopping centre in Sochi, Russia

# 1.6%

Russian retail trade growth in 2019

down from 2.8% in 2018

Worse than expected

### Consumer activity weak despite continued loan growth

Russian household activity indicators for December came in close to our below-consensus expectations, with retail trade growth decelerating from 2.3% year on year in November to 1.9% YoY in December (see Figure 1). This growth rate is closer to the intra-year range, which confirms our take that the November spike was a temporary reaction to the Black Friday discounts. The

December slowdown took place despite more-or-less stable retail loan growth of 18-19% YoY. The key obstacle to better growth seems to be on the income side, as real salary growth decelerated from 3.8% YoY in October to 2.7% YoY in November (this data comes with a one-month lag) despite a noticeable slowdown in the CPI growth at the end of 2019.

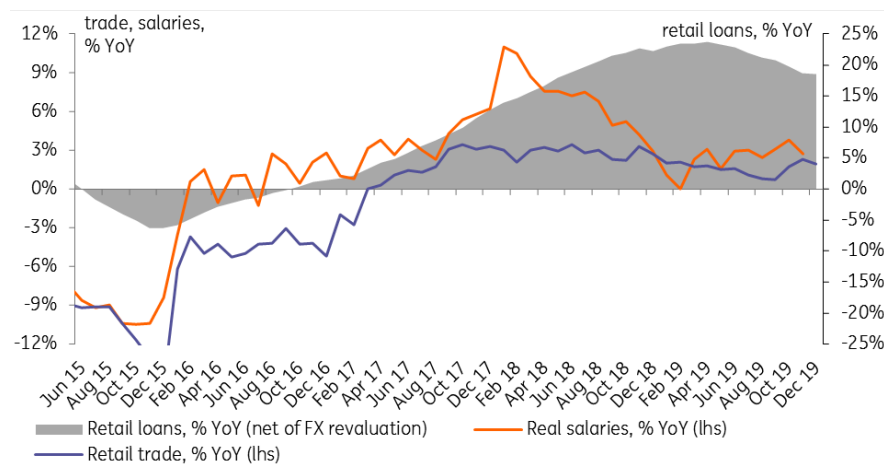
Overall, consumer trends appear to be entering 2020 on a weak note. Looking at the annual figures, retail trade growth decelerated from 2.8% YoY in 2018 to 1.6% YoY in 2019, which we attribute to the VAT rate hike, modest income growth, and increased pressure from debt interest payments.

- Retail loan portfolio increased by around 2 percentage points of GDP, representing both mortgage and non-mortgage lending (see Figure 2). The latter is approaching the historical high levels of 10% of GDP seen in 2013-14, and at this point we doubt this expansion has helped consumption growth. According to official data, households' debt interest payments totaled RUB2.0 tr in 2018, and we do not exclude that the 2019 nominal increase in households was barely enough to cover interest payments.
- Meanwhile, local bank savings of the population (according to previous statements by the Bank of Russia, around one-third of the Russian population have savings) increased by around 1 percentage point of GDP back to the high level of 28% of GDP seen in 2015-18. Moreover, FX retail deposits increased by US\$9 bn in 2019 to a historical high of US\$97 bn. This points to a stable income situation among the higher income strata, coupled with their low preference to increase spending.

Looking into 2020, the contribution of retail lending to 2020 consumption growth is likely to be zero to negative, as Russia has recently tightened macro prudential regulation, limiting the potential growth in consumer lending going forward. At the same time, the government has recently announced measures aimed at supporting lower income families with children, worth 0.3-0.5% of GDP, which may offer some compensation for the lower ability to borrow. We have no doubt, that the upcoming fiscal easing will support consumption of around 40% of the population, whose income directly depends on the budget (through public sector salaries, pensions and other social payments). However, the ability to materially improve overall consumer trend lies beyond the reach of fiscal tools and depends on whether the government will be able to boost confidence outside the state-driven sectors (ie, to convince higher income households to lower their savings rate).

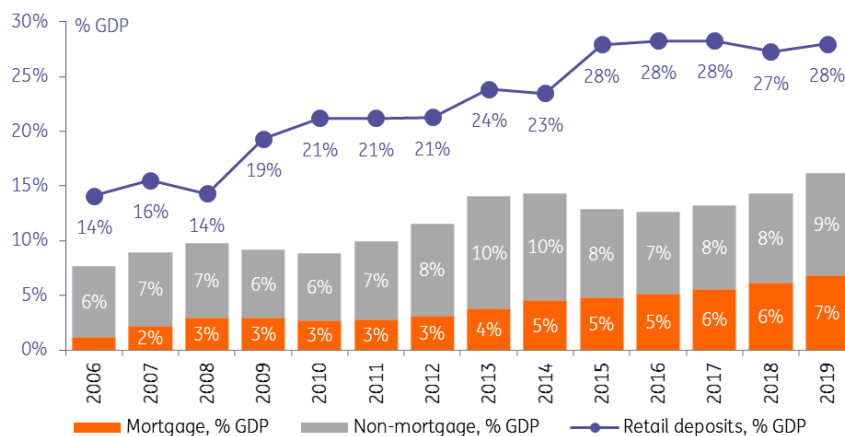
<https://think.ing.com/snaps/russian-government-resigns-what-to-expect-now/>

**Figure 1. Key indicators of the Russian consumer trend**



Source: State Statistics Service, Bank of Russia, ING

**Figure 2. Household debt and savings with local banks, % GDP**



Source: State Statistics Service, Bank of Russia, ING

### Corporate activity also weak but more promising

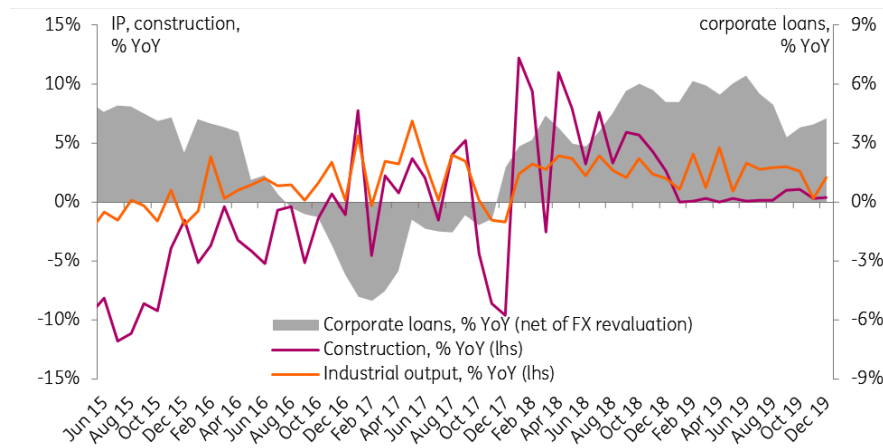
On the corporate side, the picture is more inspiring. On the one hand, construction growth continued to disappoint, posting just 0.4% YoY growth in December and 0.6% YoY for the year, and the local corporate loan growth remained weak (see Figure 3). On the other hand, a number of signals suggest that improvement of corporate activity in 2020 is a strong possibility:

- As we mentioned earlier, Russian industrial production, especially sectors focused on construction and other investment-heavy industries, posted improved dynamics in 2019, also triggering 4-8% YoY growth in imports of machinery, equipment and transport in October-November 2019.
- Companies, while still having no interest in increasing their debt burden, have recently started to reduce their savings (see Figure 4), with FX accounts down by US\$8 bn in 2019 and overall corporate funding growth decelerating from 13% YoY in 2018 to just 1% YoY in 2019. Local corporate savings with banks have declined by 2 percentage points of GDP over 2019, and even though they are currently still at an elevated 26% of GDP, this may hint at a potentially higher preference for investments.

- The recent government reshuffle may provide reassurance to the real sector that fulfillment of the National Projects (state spending on hard infrastructure and human capital) will gain traction after lagging in 2019. To remind, the federal budget underspent around RUB150 bn on National Projects in 2019 (RUB1.60 tr was spent vs a planned RUB1.75 tr), and this sum may be carried over to 2020, adding to the existing plan of RUB2.0 tr.

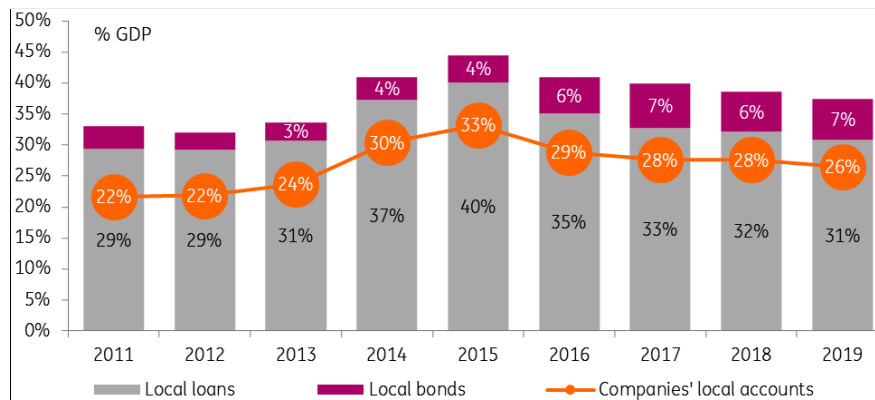
<https://think.ing.com/snaps/russian-industry-hoping-for-a-better-2020/>

**Figure 3. Key indicators of the Russian producer trend**



Source: State Statistics Service, Bank of Russia, ING

**Figure 4. Companies' local debt and savings, % GDP**



Source: State Statistics Service, Bank of Russia, ING

### Budget policy is important, but not everything

It appears that the new government will be looking to stimulate consumer and investment activity with budget tools. We are awaiting confirmation in the beginning of February, when the updated budget draft will be released. We do not exclude that additional spending of 0.5-1.0% of GDP may be incorporated into the new plan for 2020, plus around 0.3% GDP of local investments from the National Wealth Fund can be confirmed. This could improve confidence in the state-driven portion of consumption and investments and (partially offset by higher imports) lead to an improvement in the 2020 GDP growth outlook (currently at 1.5% following a preliminary 1.4% estimate for 2019) by around 0.5 percentage points.

Meanwhile, confidence in the private sector will remain a factor of uncertainty going forward.

## Author

### Dmitry Dolgin

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.